

WASHINGTON STATE INVESTMENT BOARD
Private Markets Committee Meeting Minutes
March 2, 2006

The Private Markets Committee met in open public session at 9:03 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: George Masten, Chair
 John Magnuson
 Treasurer Mike Murphy
 David Nierenberg
 Jeff Seely

Members Absent: Senator Lisa Brown
 Sandy Matheson

Other Board Members
Present: Charles Kaminski
 Patrick McElligott

Others Present: Joe Dear, Executive Director
 Gary Bruebaker, Chief Investment Officer
 Tom Ruggels, Senior Investment Officer – Private Equity
 Gary Holt, Investment Officer – Private Equity
 Sam Green, Investment Officer – Private Equity
 Linda Buchanan, Administrative Secretary

 Paul Silver, Assistant Attorney General
 David Woolford, Capital Dynamics
 Wes Edens, Fortress Investment Group
 Stephen Schwarzman, The Blackstone Group
 Kenneth Whitney, The Blackstone Group
 John Canning, Madison Dearborn Partners
 Jamie Gates, Texas Pacific Group
 David Bonderman, Texas Pacific Group

[Names of other individuals attending the meeting are not included in the minutes but are listed in the permanent record.]

The meeting convened at 9:03 a.m. with Chair Masten identifying members present.

ADOPTION OF MINUTES – FEBRUARY 2, 2006

The adoption of the minutes was deferred to the next Private Markets Committee meeting due to a lack of quorum.

Mr. Nierenberg announced that he would recuse himself from speaking to the Texas Pacific Group investment due to a business relationship with one of the partners.

PRIVATE EQUITY INVESTMENT RECOMMENDATION – FORTRESS INVESTMENT FUND IV, L.P.

Mr. Holt introduced himself and Mr. Woolford, Capital Dynamics, and said that staff recommends an investment of up to \$250 million in Fortress Investment Fund IV, a \$3 billion fund that will make control-oriented investments in asset-based businesses and asset portfolios in the United States and Western Europe. The firm is offering limited partners an opportunity to be included in the co-investment fund. Mr. Holt explained that the WSIB has previously invested in three Fortress funds and one predecessor fund. He discussed the firm's partners, skill sets, strategy, performance history, attractive terms, key man issues, and strategy changes.

Mr. Woolford discussed the firm's real estate heritage, strong underwriting discipline, Wall Street access, insights into structuring debts, market knowledge, process discipline, partners, expertise, workload of Mr. Edens, current market trends, potential impact of a shift in the real estate market, and capital recycling. He also recommended a commitment of up to \$250 million to the fund subject to satisfactory completion of due diligence and negotiation of terms and conditions.

The Committee discussed manager metrics, use of leverage, the basis for the amount of the recommendation, the firm's past performance and differentiation, terms of the co-investment fund, WSIB status as a lead investor, and WSIB advisory seat.

Mr. Edens, Fortress, introduced himself, and discussed the firm's performance, structure, principals, investment strategy, process phases, exit strategy, stable management, unique approach to public equity markets, global presence, significant downside protection, and U.S. and European investment opportunities.

The Committee questioned Mr. Edens concerning specific portfolio companies, exit strategies, privatization of public companies, and market trends.

Due to a lack of quorum, the Private Markets Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for consideration of approval of an investment of up to \$250 million, plus fees and expenses, in Fortress Investment Fund IV, L.P., subject to continued due diligence and final negotiation of terms and conditions.

[The Committee recessed at 9:49 a.m. and reconvened at 9:59 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – BLACKSTONE CAPITAL PARTNERS V, L.P.

Mr. Ruggels introduced himself and said that staff recommends an investment of up to \$200 million in Blackstone Capital Partners V, L.P., a potential new general partner relationship for the WSIB. The fund will pursue large leveraged buyouts and corporate partnership investments on a global basis. He discussed the firm's reputation, franchise, extensive internal resources, strong external network, experienced team, history, other complementary businesses that comprise the Blackstone platform, track record, and investment strategy.

Treasurer Murphy asked Mr. Ruggels to distinguish between bridge financings and fund loan provisions and whether the fund loan counts against the commitment. Mr. Ruggels explained that bridge financings are short-term situations where a deal will close before permanent financing is secured. Blackstone tends to bridge investments from outside sources rather than from the fund. The terms of the agreement enable the firm to borrow up to 25 percent of capital commitments against unfunded commitments for a longer term situation.

Mr. Ruggels discussed turnover, succession issues, and fund size.

Mr. Woolford described deal flow, the firm's real estate group, turnover, clear reporting lines, firm-wide carry, strong recruitment capability, presence in Europe, investment strategy, and buying power. He said that Capital Dynamics also recommends an investment of up to \$200 million.

The Committee discussed carry and fee structure, frequency of bridge financing, differentiation from and similarity to other WSIB partners, potential risks of the loan structure, the limit that can be financed through bridge and fund loans, advantages and flexibility due to such financing, annual returns compared to same vintage years with other WSIB partners, economic value of a diversified portfolio, structural differences compared to other WSIB partners, and the potential impact of Blackstone's multiple businesses on the senior partners' time and attention.

Mr. Schwarzman and Mr. Whitney, Blackstone Capital Partners, introduced themselves and discussed the firm's history, strategy, alignment of interests, size, fund performance, advantages of sharing of intellectual capital throughout the firm's multiple businesses, and synergies within the Blackstone platform.

The Committee discussed current and projected market trends, investment opportunities, exit contingencies, expected geographic dispersion of Fund V, global opportunities, and corporate partners.

Due to a lack of quorum, the Private Markets Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for consideration of approval of an investment of up to \$200 million, plus fees and expenses, in Blackstone Capital Partners V, L.P., subject to continued due diligence and final negotiation of terms and conditions.

[The Committee recessed at 11:10 a.m. and reconvened at 11:18 a.m.]

[Mr. McElligott was no longer in attendance at 11:18 a.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – MADISON DEARBORN CAPITAL PARTNERS V, L.P.

Mr. Green introduced himself and said that staff recommends an investment of up to \$150 million in Madison Dearborn Capital Partners V, L.P., and discussed the firm's strategy and sector focus. The recommendation is consistent with the annual plan presented to the Committee in January. The Board has invested in two prior funds and holds a seat on the advisory board. Mr. Green described the firm's investment team, experience, strong franchise, and track record. When Fund III was underperforming due to the telecom problems, Madison Dearborn ceased management fees for Fund III, reduced fees for Fund IV, slowed the investment pace for Fund IV, and focused on troubled companies to preserve as much value as possible. Mr. Green discussed generational transition issues and strategy evolution to focus on larger transactions.

Mr. Woolford discussed the firm's experience, team, success in underwriting natural resources, strategy, prominence in Chicago, generational transition issues, outsourcing, lessons learned regarding the importance of sector diversification, and expected returns of Fund III. He said that Capital Dynamics also recommends an investment of up to \$150 million.

The Committee discussed the firm's strategy of one location and one culture, experience, team, generational transition processes in place, other investors' increase in allocation, size of the recommended investment, staff's and consultant's basis for the recommendation, the firm's fit in a competitive market place, the high character of the partners, the WSIB's sector allocation, and vintage year allocation constraints.

Mr. Canning, Madison Dearborn, introduced himself and discussed the firm's history, performance, investment strategy, industry focus, participation in club deals, geographic focus, principals' longevity, sharing of carry, anticipated liquidation events, cross fund investing, terms, fees, and investors.

The Committee discussed the allocation, succession issues, and geographic focus. The Committee also had an extensive discussion of the commitment amount and pros and cons of investing more than \$150 million.

Due to a lack of quorum, the Private Markets Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for consideration of approval of an investment of up to \$175 million, plus fees and expenses, in Madison Dearborn Capital Partners V, L.P., subject to continued due diligence and final negotiation of terms and conditions.

The Committee discussed capital constraints, asset allocation, and vintage year considerations.

[The Committee recessed at 12:07 p.m. and reconvened at 12:27 p.m.]

[Mr. Seely was no longer in attendance at 12:22 p.m.]

PRIVATE EQUITY INVESTMENT RECOMMENDATION – TPG PARTNERS V, L.P.

Mr. Green said that staff recommends an investment of up to \$750 million in TPG Partners V, L.P., a \$12 billion (target) mega-buyout fund focused on large corporate restructurings in the U.S., Europe, and Asia. The WSIB has invested in two previous Texas Pacific Group (TPG) funds. Mr. Green discussed the firm's investment team, experience, sector focus, demonstrated ability to generate high-quality deal flow, track record, strategy, focus, innovative deal structures, proprietary deal flow, geographic diversification, operating group, generational transition issues, volatility of track record, and increased fund size.

Mr. Woolford discussed the firm's operational skills, transformational investments, consumer products focus, carry structure, and changes in investment processes. He said that Capital Dynamics is recommending an investment of up to \$500 million in the fund, and discussed the WSIB's total commitments for 2006, allocation range, TPG's structural changes, and the frequency of TPG's fund raising cycle.

The Committee discussed the firm's performance record, differentiated strategy, amount of the WSIB allocation, increased fund size, the Gemplus lawsuit, and additional capacity from the merger with the firm's Asian affiliate, Newbridge Capital.

Mr. Bonderman and Mr. Gates, TPG, introduced themselves and discussed the firm's history, global focus, size, partners, strategy, market trends, expansion of private equity into new industries and geographic regions, interest rates, structural changes in investment banking business, sector selection, geographic selection, and operating improvement.

The Committee and the TPG partners discussed the amount of the recommendation, cross fund investments, competition, and participation in club deals.

The Committee discussed the size of the investment, staff's and consultant's reasoning for their respective recommendations, the firm's reputation, and concentration risk.

Mr. Nierenberg had previously recused himself from the discussion.

Due to a lack of quorum, the Private Markets Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for consideration of approval of an investment of up to \$750 million, plus fees and expenses, in TPG Partners V, L.P., subject to continued due diligence and final negotiation of terms and conditions.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

OTHER ITEMS

Mr. Masten said that Pat McElligott asked him to let the Committee know that a number of Board members want the Committee to revisit the KKR investment for the co-investment opportunity.

There being no further business to come before the Committee, the meeting adjourned at 1:33 p.m.